

**Macquarie Infrastructure and Real Assets (Europe) Limited**

A member of the Macquarie Group of Companies

Acting in its capacity as Manager of

**Macquarie European Infrastructure Fund L.P.**

Ropemaker Place  
28 Ropemaker Street  
London EC2Y 9HD  
UNITED KINGDOM

Telephone	+44 20 3037 2000
Fax	+44 20 3037 2041
Internet	<a href="http://www.macquarie.com/uk">www.macquarie.com/uk</a>

Mr Andrew Turner MP  
Member of Parliament for the Isle of Wight  
Riverside Centre  
The Quay, Newport  
Isle of Wight PO30 2QR



24 January 2013

Dear Mr Turner,

Thank you for your letter dated 14 January 2013 to Nicholas Moore concerning Wightlink. I am replying on Nicholas' behalf in my capacity as Chairman of Wightlink and a Senior Managing Director of Macquarie Infrastructure and Real Assets (Europe) Ltd (MIRA(E)L), a division of Macquarie.

I welcome this opportunity to address your questions about the recent changes to Wightlink's timetable, its ownership structure and financing.

Firstly, I would like to emphasise that the decisions taken by Wightlink's management in relation to timetable changes were driven by commercial considerations based on a lack of passenger demand. These considerations are unrelated to the ownership or financing of the business.

Wightlink and its owners are proud to serve the island and remain committed to providing a sustainable, high quality, commercially viable, lifeline service, free of any kind of state subsidy.

Wightlink's decision to cancel a small number of night sailings was not taken lightly, and any adverse impact on our customers is of course regrettable. However, these changes have been made to help secure the future of Wightlink's services to and from the Isle of Wight. The changes will enable Wightlink to provide a sustainable service that meets the needs of the overwhelming majority of customers.

The difficult economic climate and resulting drop in consumer spending pose challenges for all businesses, but those which largely rely on tourism suffered the additional impact of the poor weather last summer. The transport sector is also facing

---

None of the entities noted in this document is an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these entities do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of these entities.

Registered in England & Wales with Registered No. 3976881  
Registered office as above

Macquarie Infrastructure and Real Assets (Europe) Limited is authorised and regulated by the Financial Services Authority (Firm No. 195652)

steeply rising fuel prices and increased regulation which has an impact on costs. Wightlink is doing as much as possible to protect customers from the impact of these external factors, and so has rigorously assessed its cost base to maximise efficiency. This approach has allowed us to hold fare increases at or below inflation this year, which will help support customer demand levels in such tough times.

As part of this process, Wightlink has revised its timetables to match more closely with customer demand. Despite extensive marketing efforts to increase passenger numbers, certain night sailings continued to be very poorly used. The affected sailings operated at very low capacity (on average, 93% empty for passengers and vehicle decks 80% empty) with staff often outnumbering passengers.

In response to these very low passenger numbers, a small number of overnight sailings (a total of eight rotations across our three routes) will no longer operate.

This, and other steps being made, will help to secure the long-term future of the routes, provide sustainable employment for staff, help put the company on a secure financial footing and facilitate investment in the new ships which Wightlink will soon require for the Portsmouth-Fishbourne route.

### **Wightlink Group Structure**

Wightlink Limited is the operating company that runs one of three competing ferry services between the mainland and the Isle of Wight. Through an intermediate holding company, the business is owned by the Macquarie European Infrastructure Fund (MEIF). MEIF is, in turn, primarily owned by a number of pension funds which represent pensioners from the United Kingdom and other countries around the world.

The investment made by MEIF's investors is patient capital, well suited to the long-term investment needs of this type of business. Investors' money is pooled in the fund, which is then deployed into investments. These investments include infrastructure assets in the UK (such as Wightlink) and other countries in Europe. The structure of the fund is an appropriate and common way to hold investments from multiple countries.

The assets and businesses in which the fund invests pay tax in the country where they are located, according to local rules. Similarly, investors in the fund pay tax in their own country, according to local rules.

MIRA(E)L is engaged by MEIF to provide shareholder and governance services for Wightlink, to support the Executive Management team, appraise major investment projects, etc. MIRA(E)L is paid fees by MEIF to provide these services and is registered and taxed in the UK.

Therefore, please allow me to be clear that no direct payments have ever been made by Wightlink to any part of Macquarie. If Wightlink were to pay distributions or inter-

company interest payments in the future, those payments would be made to MEIF (on behalf of its primarily pension fund owners) and not separately to Macquarie.

### **Investment and Distributions**

MEIF has been a supportive, long-term owner of Wightlink. In particular I would like to draw your attention to the following:

- Since 2007, no payments have been made out of the Wightlink Group to any part of Macquarie or MEIF, whether by intercompany loan interest, dividends or by any other means. All cashflows generated by Wightlink since that time (after satisfying external debt payments to external banks) have been retained within the Group for re-investment purposes.
- Interest charges on the intercompany loan recorded in the accounts are made for accounting purposes only and in accordance with accounting rules, but (as stated above) no cash has been paid out of the Group since 2007. The inter-company loan was put in place on acquisition over seven years ago and the interest rates reflect the market at the time and the risk involved in a loan which is subordinate to all other lenders and creditors. The key point is that the loss recorded in the recent accounts is a “paper” reported loss only, in line with accounting requirements, and has had no impact whatsoever on the economics or cashflows of Wightlink
- Wightlink pays taxes in the UK and abides by all UK tax laws, including contributing tax through national insurance and VAT. Until recently, Wightlink has been covered by the Tonnage Tax regime, which is a Government tax initiative that subjects shipping companies to a separate regime of tax in exchange for investing in training of new cadets, etc. Following a test case involving HMRC and Western Ferries, it is unclear in what circumstances ferry companies traversing inland waters such as the Solent are subject to Tonnage Tax. Hence, as is the case with other operators, Wightlink is in open discussions with HMRC about its future tax treatment. Wightlink and MIRA(E)L take a transparent and constructive approach with HMRC in respect of the company's tax arrangements.
- Under MEIF's ownership, Wightlink has invested c£50m in new vessels, systems and port-side facilities. Outside of the Portsmouth to Fishbourne vessels, Wightlink has undergone a complete asset refresh and overhaul to the benefit of customers. The investment which is now needed on the Portsmouth to Fishbourne route is contingent upon careful cost control as exemplified by the recent decisions made by Wightlink's management.
- Notwithstanding the absence of any cashflows returned to shareholders since 2007, MEIF's investors contributed further equity to Wightlink in 2010, as a result of the difficult economic climate, problems with Ryde Pier and challenges associated with the service provision at Lymington. Without the additional funds provided by MEIF's

investors, Wightlink would not have been able to afford the required repairs to allow the Portsmouth to Ryde service to continue.

In summary, I hope these points demonstrate MEIF's responsible approach as a long-term investor in essential service, infrastructure assets. MEIF remains committed to Wightlink and its customer base, and will continue to be a supportive investor.

I would also like to reiterate that the recent decisions taken by Wightlink's management are aimed at putting the company on a sustainable footing and are in no way related to the ownership or financing of the business.

I would, of course, be happy to meet you to discuss any of these issues further if you would find that helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Gordon Parsons', with a stylized flourish at the end.

**Gordon Parsons**

Chairman – Wightlink Ltd

Senior Managing Director of Macquarie Infrastructure and Real Assets (MIRA(E)L)

cc. Nicholas Moore